TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 1526 - SB 1701

February 6, 2018

SUMMARY OF BILL: Extends the investment period for a border region retail tourism development district, from 10 years to 15 years.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - Exceeds $500,000

Forgone State Revenue – Exceeds $250,000

Increase Local Revenue – Exceeds $1,000,000

Other Fiscal Impact – Secondary economic impacts may occur as a result of this legislation due to increased business presence in Tennessee. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 7-40-103, an investment period is defined as the period beginning two years prior to the municipality's designation of the proposed border region retail tourism development district for the project and ending ten years after certification of the district.
- Pursuant to Tenn. Code Ann. § 7-40-106(a), if a municipality or industrial development corporation finances, constructs, leases, equips, renovates, assists, incents, or acquires an extraordinary retail or tourism facility or a project in a certified district, then 75 percent of state sales and use tax collected in the district in excess of base tax revenues shall be apportioned and distributed to the municipality in an amount equal to the incremental increase in state sales and use taxes derived from the sale of goods, products, and services within the district in excess of base tax revenues.
- Pursuant to Tenn. Code Ann. § 7-40-106(b), apportionment and distribution of such taxes shall continue for a period of 30 years, or until the date on which all the cost of the economic development project, including any principal and interest on indebtedness, including refunding indebtedness of the municipality or industrial development corporation related to the development of the project have been fully paid, whichever is sooner.

- The apportionment and distribution of such taxes shall only take place if the Commissioner of Department of Revenue (DOR), with approval by the Commissioner of the Department of Economic and Community Development, determine that such allocation of state sales tax is in the best interest of the state. Best interest of the state means a determination that the economic development project or extraordinary retail or tourism facility within the district is a result of the special allocation and distribution of state sales tax, and the district is a result of the project or extraordinary retail or tourism facility.
- This program certified three cities prior to the January 1, 2012 deadline (Kingsport, Bristol, and East Ridge).
- The investment period currently extends 10 years beyond such deadline to June 30, 2021 or FY21-22.
- This legislation extends such investment period by five years, to FY26-27.
- Extending the investment period could have an impact on state and local tax revenue in the following two ways: 1) a decrease in state revenue and an equivalent increase in local revenue for projects that are currently in the development phase and would incur expenditures during the five-year time period for which a reimbursement is not available under current law; and 2) an increase in state and local revenue for projects that will only commence in the five-year time period as a result of the proposed investment period extension and the DOR's determination that any such project is in the best interest of the state; since such projects would not take place under current law in the absence of the special tax allocation, future sales tax revenue generated from the development would represent an increase in both state and local sales tax revenue. The 75 percent portion of sales tax revenue that would be transferred to the local government represents forgone revenue to the state.
- Further, it is reasonably assumed that a certain portion of tax revenue apportionments received by a municipality or industrial development corporation will be used to purchase tangible goods, all subject to state and local sales tax.
- The fiscal impact of this legislation is dependent upon several unknown factors such as the degree of future developments within existing districts that would not take place under current law, the degree of current developments that will incur expenditures during the extended time period, the taxable sales and services that will occur in the future, and the total bond indebtedness incurred to finance development within an approved district.
- Due to multiple unknown factors, determining a precise fiscal impact is difficult. However, it is reasonably assumed that the net decrease to state revenue will exceed $500,000 and the forgone revenue to the state will exceed $250,000.
- Local government revenue will increase by an unknown amount reasonably estimated to exceed $1,000,000 per year.
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by the passage of this legislation. Increases in revenue may occur if the number of businesses increase, and the number of jobs increase, as a result of this legislation. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of any increased business presence in Tennessee. Due to multiple unknown factors such as the extent and timing of any increased business presence, the fiscal impacts directly

attributable to such secondary economic impacts are considered indirect and cannot be quantified with reasonable certainty.

IMPACT TO COMMERCE:

Increase Business Revenue – Net Impact – Exceeds $500,000

Jobs Impact – Unquantifiable Increase

Assumptions:

- The impact of this legislation is dependent upon several unknown factors such as the degree of future developments within existing districts that would not take place under current law, the degree of current developments that will incur expenditures during the extended time period, the taxable sales and services that will occur in the future, and the total bond indebtedness incurred to finance development within an approved district.
- Due to multiple unknown factors, determining a precise impact to commerce is difficult.
- It is assumed that this legislation will result in greater development in affected districts, resulting in one-time and recurring increases in revenue and expenditures for businesses providing construction, consultation, and financial services, among others.
- Due to multiple unknown factors, the total net impact to businesses in this state is reasonably estimated to exceed $500,000.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

/jdb